

# ANALYSIS OF ORIGINAL BILL

## Franchise Tax Board

Author: Solis Analyst: Kristina E. North Bill Number: SB 1932  
Related Bills: None Telephone: 845-6978 Introduced Date: February 24, 2000  
Attorney: Patrick Kusiak Sponsor: \_\_\_\_\_

**SUBJECT:** California Lung Disease and Asthma Research Fund

### SUMMARY

Under the Personal Income Tax Law (PITL), this bill would allow taxpayers to designate a contribution on the state tax return to the California Lung Disease and Asthma Research Fund.

### EFFECTIVE DATE

This bill would be effective January 1, 2001. This bill would apply to taxable years beginning with the first taxable year the fund designation is added to the return, or the taxable year beginning January 1, 2002, whichever occurs first. The ability to designate contributions to the fund and the fund would remain in effect until January 1 of the fifth taxable year after the fund is added to the tax return, or January 1, 2007, whichever occurs first.

### BACKGROUND

Thirteen voluntary contribution funds appear on the 1999 state personal income tax return. Total contributions to the funds have varied from approximately \$3.4 million in 1989/1990 to approximately \$3 million in 1998/1999. The number of individuals contributing (first tabulated in 1993) remains fairly constant at approximately 140,000, or slightly less than 1% of all taxpayers.

### SPECIFIC FINDINGS

**Current federal tax law** provides a true checkoff to direct \$3 of a taxpayer's tax liability to the presidential election fund. Designation of the \$3 amount does not affect a taxpayer's tax liability or refund amount.

**Current state tax law** allows taxpayers to make contributions of their own funds (not tax liability) on their tax returns to the 13 voluntary contribution funds listed on the state tax return. Each fund provides for the reimbursement of the Franchise Tax Board's (FTB's) and the Controller's actual costs to administer the fund.

Except for the California Seniors Special Fund, which has no sunset date, the voluntary contribution funds have various sunset dates. Attachment I shows the specific sunset dates for each voluntary contribution fund and indicates that all funds except the California Seniors Special Fund must meet a minimum contribution test (as indexed, if required) to remain on the return. Attachment II is a chart indicating the number and dollar amount of contributions to the funds for multiple fiscal years.

#### Board Position:

_____ S	_____ NA	_____ NP
_____ SA	_____ O	_____ NAR
_____ N	_____ OUA	_____ X PENDING

#### Department Director

#### Date

Alan Hunter for GHG

3/22/00

**This bill** would establish the California Lung Disease and Asthma Research Fund and would allow taxpayers to designate their own funds (not tax liability) for contribution to the fund on their tax returns in full dollar amounts of \$1 or more. The contributions may be made individually by each signatory on a joint return. The designations for any taxable year must be made on the initial return for the taxable year and, once made, are irrevocable.

**This bill** would require the FTB to revise the personal income tax return to include a designation space for the Fund beginning with the first taxable year another voluntary contribution fund is removed, or for the taxable year beginning January 1, 2002, whichever occurs first.

For the second taxable year the fund is on the return, **this bill** would require the fund to meet the \$250,000 minimum contribution test. Beginning in the second calendar year the fund appears on the return, or January 1, 2004, whichever occurs first, the FTB would be required to adjust the \$250,000 minimum contribution amount for inflation. If in any calendar year the FTB estimates by September 1 that contributions made under this bill will be less than \$250,000 (as indexed), the law authorizing designations of this fund on a return and establishing the fund would be repealed.

The provisions of **this bill** would remain in effect until January 1 of the fifth taxable year after the fund appears on the tax return, or January 1, 2007, whichever occurs first, unless a later enacted statute deletes or extends that date.

**This bill** would provide that a taxpayer's return be treated as if no designation has been made if payments and credits reported on the return, together with any other credits associated with the taxpayer's account, do not exceed the taxpayer's liability. If no designee is specified, a designated contribution amount would be transferred to the General Fund.

**This bill** would require the Controller to transfer money designated for this fund by taxpayers from the Personal Income Tax Fund to the California Lung Disease and Asthma Research Fund. Upon appropriation by the Legislature, the money transferred to the fund would be allocated for the direct, actual costs of the FTB and the Controller for the collection and administration of the fund and to the State Department of Health Services (DHS) for allocation to the American Lung Association of California to fund research grants.

**This bill** also specifies that the funds may not be used for the DHS's administrative costs.

**This bill** specifies that this article creates an additional funding source for the California Lung Disease and Research Fund and that this fund shall be used to supplement, not replace, other funding sources for this program.

### **Policy Considerations**

The placement of voluntary contributions on the tax return limits the amount of space available for tax-related items. The inclusion of non-tax related information could ultimately impair tax collection and reduce administrative efficiency.

### **Implementation Considerations**

This bill does not provide an "ordering rule" to determine placement on the tax return should other voluntary contribution funds be enacted with the same requirement that another be removed before a new fund is added. Without an ordering rule, the department would place a new contribution fund on the return for each contribution fund removed from the return, based upon the chaptering order of the bills creating the funds. It might be appropriate for the author to include this, or another ordering rule, in the bill.

### **Technical Considerations**

On page 3, line 9 of the bill, the word "long" should be "lung."

### **FISCAL IMPACT**

#### **Departmental Costs**

This bill would not significantly impact the department's costs.

#### **Tax Revenue Estimate**

If the minimum level of contributions is achieved each year, potential revenue losses from this bill would be very minor, on the order of \$15,000 annually, beginning with first fiscal year after the fund appears on the tax return. The loss would result from itemized deductions for the contributions.

Any possible changes in employment, personal income, or gross state product that might result from this bill are not taken into account.

#### **Tax Revenue Discussion**

According to departmental data, the total amount of voluntary contributions was approximately \$3 million for fiscal year 1998/1999 with an average of nearly \$260,000 per individual designated fund.

Assuming contributions equal or exceed the minimum contribution threshold and all contributors itemize deductions and make no reductions in other charitable contributions, the annual revenue loss, beginning with the first fiscal year the fund appears on the tax return, would be on the order of \$15,000 by applying an average marginal tax rate of 6%.

### **BOARD POSITION**

Pending.